



Episcopal Diocese of Western Michigan

Parish Financial Practices Workshop

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Church Tax

NORMALLY CONSIDERED EMPLOYEES (Receive W-2)

- Rectors, Vicars, and their assistants
- Interim clergy and regularly employed supply clergy who consistently work at the same congregation for more than one year
- Secretaries, sextons, directors of Christian education, childcare providers who are not volunteers (including teenagers), yard maintenance workers (including teenagers), organist, choir director

Church Tax

WHO IS AN EMPLOYEE?

- You have control over what will be done and how it will be done
- You set the worker's hours
- The worker uses the parish's tools, equipment & materials
- Doesn't matter if worker is part-time or full-time
- Person can be paid by the hour, week or month
- Existence of a continuing relationship
- Payment of business expenses, including travel

Church Tax

INDEPENDENT CONTRACTOR (Receive 1099)

- More likely to have unreimbursed expenses
- Usually have significant investment in their own equipment
- Free to seek out other business opportunities and make their services available to others
- Advertise their services
- Paid by a flat fee or by the job

Church Tax

EMPLOYER RESPONSIBILITIES

■ For Employees:

- Obtain Federal & State W-4 forms
- Obtain Employment Eligibility Form I-9
- Withhold FICA & Medicare Taxes (lay employees)
- Issue Form W-2 to Clergy & Lay Employees by January 31
- File either: Quarterly 941 Form (if have any taxable wages), or Annual 944 Form if <\$1,000 taxes (only if IRS has notified you)
*If only have only one employee (clergy), no 941 required
- Must register new employees with the State within 30 days of hire – <http://mi-newhire.com/MI-Newhire/default.aspx>

■ For Independent Contractors:

- Obtain “Request for Taxpayer Identification & Certification” Federal W-9 Form (if needed)
- Issue Form 1099 by January 31***Do not include mileage reimbursement, or travel expense reimbursement, if substantiated (must include travel or mileage allowance if no documentation required or flat amount given)***

Church Tax

TAX HELP from the IRS

IRS Website: www.irs.gov

Telephone Numbers

- General Information 1-800-829-1040
- Tax Forms & Publications 1-800-829-3676
- Form 941 Help Line 1-800-829-4933
- Forms W-2, 1099 Help Line 1-866-455-7438
- Exempt Organization Help Line 1-877-829-5500

Publications

- Pub 15 Circular E, Employer's Tax Guide
- Pub 15-A Employer's Supplemental Tax Guide
- Pub 15-B Employer's Tax Guide to Fringe Benefits
- Pub 463 Travel, Entertainment, & Auto Expenses
- Pub 517 Social Security and Other Information for Clergy
- Pub 526 Charitable Contributions
- Pub 1828 Tax Guide for Churches and Religious Organizations

Church Tax

- **Church Pension Group – Tax Resource Center**

- 2010 Federal Reporting Requirements for the Episcopal Church (Administrators)
- 2010 Clergy Tax Guide (for 2009 Taxes)

<http://www.cpg.org/productsservices/taxresources.cfm>

Church Tax



Episcopal Church Resource

- Manual of Business Methods in Church Affairs
 - Downloadable pdf file (released October, 2007, and updated periodically)
[http://www.edwm.org/business/documents/MANUAL FOR BUSINESS METHODS.pdf](http://www.edwm.org/business/documents/MANUAL_FOR_BUSINESS_METHODS.pdf)

QUESTIONS?

Budgeting

■ Budget Process

1. Vestry - establish a timeline for the budget process and a stewardship campaign. The Budget should be based on the mission and ministry of the parish and can change.
 2. Finance Committee (or Treasurer) - draft a tentative budget to present to the Vestry, including prior year actual results, which the Vestry then presents the adjusted, Vestry-approved budget to the congregation (does not have to be approved at annual meeting)
 3. The approved budget should be integrated into the monthly financial statements presented to the Vestry, with line item explanations of budget deviations from actual results
- * An approved budget serves as authorization to expend funds. In most cases, expenses should not exceed the budgeted amount without Vestry's prior approval. If amendments to the budget are made, include in your Vestry's minutes.

Resources

- **Vestry Resource Guide – for vestries, wardens and clergy**
 - <http://forwardmovement.org>
- **Manual of Business Methods in Church Affairs**
 - **Downloadable pdf file (released October, 2007 & updated periodically as indicated at the end of each chapter)**
<http://www.episcopalchurch.org/finance>

QUESTIONS?

Parish Audits

■ Some Reasons for an Audit

- To protect the church assets
- Assures that the financial statements are fairly stated
- A parish audit can provide assurance to the congregation that all monies and investments are properly accounted for, which can have a positive impact on stewardship
- Offers the opportunity to receive recommendations for more efficient and proper procedures, to increase the effectiveness of internal controls
- Is NOT a guarantee to find fraud!
- Required by the Bishop in calling a new Rector

Parish Audits

- **Yearly Audit is Required by Episcopal Church & Diocesan canons (due to Diocese by Sept. 1)**
 - Certified Public Accountant
 - Licensed Public Accountant
 - Committee - in accordance with Manual of Business Methods in Church Affairs (chapter VI)

- **Accounts to be Audited – All accounts must be audited including (but not limited to):**
 - Operating
 - Restricted
 - Endowment
 - Clergy Discretionary
 - ECW
 - Altar Guild
 - Designated

QUESTIONS?

Internal Controls

- Good Internal Controls:

- will ease the Treasurer's job by providing greater assurance that transactions are recorded properly and result in more reliable records and protection of church assets (either by deliberate theft or inadvertent errors)
- will allow for better compliance with civil laws, church canons and church policies

- Not all controls will be applicable to, or cost-effective for all types of organizations

Internal Controls

Segregation of Duties - No individual should handle every step of a single transaction

- **Receipts**

Who opens the mail, makes deposit, posts to the general ledger

- **Counting the Offering**

Sunday offerings should *never* be in the hands of, or counted by, one person alone. Two unrelated parish members should be assigned to count the offering after every service, record the checks & cash collected on a standard form, place in a safe at the church or night deposit at the bank. The Rector should not count the collection. Parish members should be rotated on a periodic basis.

Internal Controls

■ Disbursements (check writing)

- **Must have invoice or other supporting documentation from the vendor or employee**
- **Prior to payment, verify the expense is included in the vestry's approved budget**
- **One person has custody of, and writes the check, and the second person signs the check. May require two signatures on checks. If only one check signer, someone else should receive the bank statement and scan for irregular activity**

Health/Dental/Vision Insurance

Provided by Episcopal Church Medical Trust (a division of Church Pension Group)

- If employee is over 65, must still provide employer sponsored medical insurance – cannot buy supplemental Medicare instead. Federal laws say employer benefit is primary if coverage is available

- Must enroll new employees within 30 days of employment (done through Tammy)

- Changes can be made during open enrollment in the fall, or changes for life events during the year (marriage, divorce, birth, loss of other coverage) & must be done through Tammy

- Plans offered and cost information available on EDWM & CPG websites

- Vision is included with the Health plan, and cannot be purchased separately

Eligibility-An active clergy or lay employee who is receiving a W-2, and is a salaried employee or scheduled to work at least 20 hours per week (1,000 hours per year).

Eligible Dependents-Spouse or domestic partner; children who are younger than 30, unmarried and no dependents, living at home with parents; children enrolled as a full-time student not covered under any other plan; unmarried physically or mentally disabled children, regardless of age.

Disability Insurance

Provided by Episcopal Church Medical Trust (a division of Church Pension Group)

- Must enroll within 30 days of employment, or go through underwriting for possible approval
- Diocese does not *require*

- **Short-Term Disability Insurance**
 - Replaces lost income for up to one year, if disabled more than 30 days
 - Included with clergy defined benefit pension plan
 - Employer or employee may purchase for lay employees
 - Parish receives up to 70% of compensation (max of \$1,000/wk), but pays employee in full

- **Long-Term Disability Insurance**
 - Begins when short-term coverage ends, and continues until employee can work again, or until they reach age 65
 - Employers can provide, or employees can purchase
 - Benefit payable to employee at 50% of compensation

Pensions

- CPG Lay & Clergy Defined Benefit Plans
 - 18% of pension based compensation required to be contributed by employer for clergy, full or part time.
 - 9% employer contribution for lay employees. Cannot participate until after one year of employment. Must be working more than 19 hours per week or 1,000 hours per year.
 - CPG Lay Employee Defined Contribution Plan (403(b))
 - Employers make 5% contribution for lay employees plus an additional match of employee contributions of up to 4%. Can participate when hired. No minimum hours required.
 - Lay employees may also contribute additional monies to this plan
 - CPG Lay & Clergy Employee Retirement Savings Plan (403(b))
 - Clergy and lay employees may make contributions to the plan, up to the IRS limits
- You may offer one or both plans for lay employees
 - If assessments are unpaid for more than six months, the cleric may lose: credited service, life insurance benefit, and others
 - Life insurance benefit included with active clergy defined benefit pension plan through CPG (no charge) has increased to four times compensation, with a maximum of \$100,000 benefit

Clergy Compensation

- Cash stipend - salary, bonuses, fees, salary reductions to fund tax deferred annuities, IRA, 403(b) or RSVP
- Social Security tax reimbursements paid directly to cleric
- Utilities – Allowances & direct payments to cover the cost of utilities
- Housing Allowance (Cash or Living in Rectory)
 - If living in rectory, for pension purposes use 30% of sum of cash stipend, SECA offset and utilities

*The total of all of these added together is assessable compensation and should be in accordance with the Diocesan minimum compensation standards approved each year at Diocesan convention

*Contact me to calculate cash stipend for clergy living in a rectory

Investments

- Both Diocesan and Episcopal Church investment policies available on EDWM website under the “business” section
- Extended increase in FDIC insurance from \$100,000 to \$250,000, per depositor, through 12/13/2013
- Re-evaluate investment spending policy (or set one). Diocese currently using distribution of 5% of the average investment balance of the prior 10 trailing quarters. Most non-profits use a policy similar to this, but some have amended theirs due to the uncertainty in the markets

Important Information & Upcoming Dates

- Apportionment Letters were Due to Finance Office by 1/31/10
- Parochial Reports Due 3/1/10-enter online too if possible <http://pr1.dfms.org/> (contact me if you need sign on info or help doing this)
- Church Insurance is now handling Workers' Compensation Insurance
- New IRS business mileage reimbursement rate at 50 cents/mile (1/1/10)
- Diocesan volunteer mileage reimbursement rate at 30 cents/mile
- Directory of Parishes & Clergy now available in pdf format and being updated quarterly

Important Information & Upcoming Dates

- Electronic newsletter-sign up on EDWM website
- Diocesan Calendar
- Submissions for the website should be formatted & e-mailed to: communications@edwm.org
- Questions on Property, Liability and Workers' Compensation can be directed to Corky Bonesteel at Church Insurance Agency Cbonesteel@cpg.org

Questions